



WEEKLY ECONOMIC DIGEST

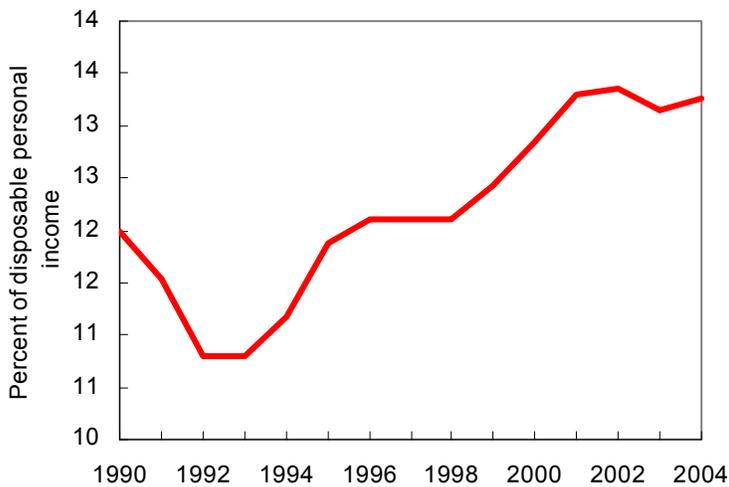


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

March 15, 2005

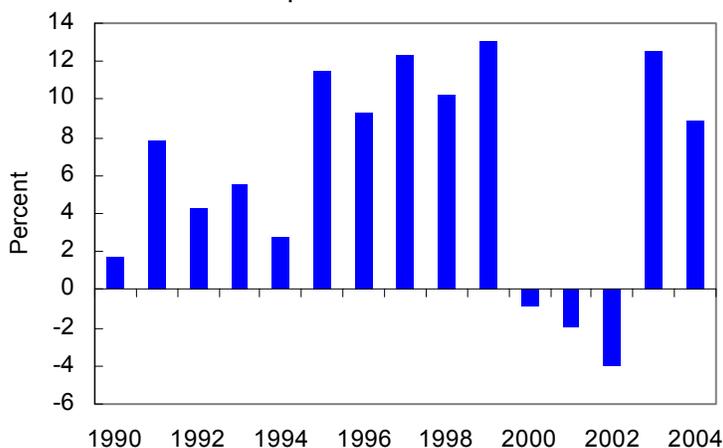
Debt Threats

Debt Service of Households and Nonprofit Institutions



Source: Board of Governors, Federal Reserve System.

Change in Net Worth of Households and Nonprofit Institutions



Source: Board of Governors, Federal Reserve System.

- Household debt rose in 2004, but so did net worth.** The overall credit market liabilities of households and nonprofits grew by 11.2 percent last year, the largest gain since 1986, according to new data from the Federal Reserve. That gain reflected a surge in home mortgage liabilities. As a result, household debt-service payments were 13.3 percent of personal disposable income last year (see top chart). Household net worth—the amount by which total assets exceed total liabilities—rose 8.8 percent in 2004 (see bottom chart). Housing was an important source of growth on the asset side of the ledger as well. These are aggregate data, however, and do not tell us the distribution of changes in net worth across households.

- The trade deficit rose to a near record level in January.** Imports of goods and services rose more rapidly than exports in January, leading to a rise in the trade deficit to \$58.3 billion for the month. That is just below November's record level. Revised figures put the trade deficit for 2004 at a record \$617.1 billion, all but guaranteeing that data on the broader current account deficit due to be released this week will also show a record deficit for 2004. The trade report caused some jitters in financial markets, where there is increasing concern about how long foreigners will be willing to lend us the money we need to finance our trade deficit by, among other things, purchasing large amounts of U.S. Treasury debt.

- February's budget deficit set a record for a single month.** Federal spending exceeded receipts by \$114 billion last month, the first time the deficit has exceeded \$100 billion in a single month. Monthly budget numbers reflect considerable seasonal and calendar variability, but February's triple-digit monthly deficit symbolizes the ongoing problem of large federal budget deficits and mounting debt.

The Economy at a Glance	Feb	Jan	Dec	Nov	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.8	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)*	n.a.	0.0	8.7	1.2	4.0	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)*	n.a.	79.0	79.1	78.6	78.7	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.4	5.2	5.4	5.4	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)*	n.a.	2159	2063	1805	1978	1969	1920	1943	1952	1853
Real Disposable Personal Income (% growth)	n.a.	5.6 [#]	9.5 [#]	2.4	3.4 [#]	2.9	2.8	2.4	3.7 [#]	2.3
Retail Sales (% growth)*	n.a.	-3.7	14.4	-0.5	9.9	5.7	6.4	10.9	7.6	5.3
Personal Saving Rate (level, %)	n.a.	1.0	0.3 [#]	0.5	0.5 [#]	0.7	1.3	1.0	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	1.2	0.0	3.7	3.6	1.6	4.4	3.9	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.3	1.8	2.6	1.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)	—	—	—	—	2.1	1.3	3.9	3.8	4.0	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.54	2.33	2.19	2.07	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.17	4.22	4.23	4.19	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.50	2.28	2.16	1.93	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10724	10540	10673	10412	10362	10130	10289	10488	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Advance Monthly Sales for Retail and Food Services: February 2005** [Release: Tuesday, March 15]
- **U.S. International Transactions: Fourth Quarter and Year 2004** [Release: Wednesday, March 16]
- **New Residential Construction: February 2005** [Release: Wednesday, March 16]
- **Industrial Production and Capacity Utilization: February 2005** [Release: Wednesday, March 16]